

S A V A G E



Savage Fenty Outsourcing Plan

Maria Abarca, Joanne Bohorquez, Kamila Duncan, & Raquel Mastrangelo

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1. Introduction

Purpose

Our international buying team is responsible for developing a new product line for our company, Savage x Fenty. We will expand brand's merchandise mix through international outsourcing in the country of Mexico. Our upcoming product is a swimwear line that shall launch in spring/summer season of year 2022.

In considering the characteristics of our company, Savage x Fenty will boost revenue by adding an inclusive swimwear line. The brand will benefit from expanding production in Mexico as the country will be the next manufacturing destination for American brands.

Company Background

Launched globally in 2018, fashion icon Rihanna's Savage x Fenty, gained recognition as an e-commerce lingerie brand. Its primary products: bras, underwear, and lingerie; sizes XS-3X. Having Rihanna as lingerie designer in addition to her popularity, Savage x Fenty has gained over a million social followers (TechStyle, 2017). The brand had such a successful launch that premiered merchandise sold out, increasing demand for best sellers and new products.

Savage x Fenty partnered in a joint venture with the fashion platform TechStyle Fashion Group, operating in El Segundo, California. TechStyle integrates data science, personalization, and membership commerce. The fashion platform consists of 5 million members (about twice the population of Mississippi), 85 million shipped products, 12 countries, 17 million Facebook fans, and 25x customer visits per year (TechStyle, 2018). TechStyle carries Fabletics, Savage x Fenty, Justfab, Shoedazzel, and Fabkids. The fashion group utilizes FashionOS as a proprietary enterprise software suite (TechStyle, 2017). Within this platform there are integrated technologies to manage

commerce. The unified technology platform includes Bento, a global ecommerce system, Bond, global customer management system, Albert, an enterprise data management system, In Home, personal styling and merchandising system, Omni Suite, an omnichannel experience system, lastly, Evolve, a global supply chain and fulfillment system (TechStyle, 2017). TechStyle's brand process is known as the brand labs, test, launch and scale brand concept before market entry. Brands have reduced liability as brands are launched at a lower cost. These quickly targeted brands are speedily introduced to markets in the United States and Europe within 6months. Success is high as the latest brands acquire a large market share in a 24–36-month period.

Manufacturing varies as most Savage x Fenty merchandise is imported. As we expand outsourcing production to Mexico, our international buying team will emphasize transparency. We will provide COG to consumers under our swimwear line and further detailed information for our customers to access.

2. *Outsourcing Plan*

- A. Decision Stage 1: What to outsource?
- B. Decision Stage 2: Where to outsource?
- C. Country Assessment
 - a. **Location**

Mexico is located between the Pacific Ocean in the west and the Caribbean Sea and the Gulf of Mexico in the east. (Nations Online) Mexico is also bordered by the following countries, the United States of America in the northern part and Belize and Guatemala in the southern part of Mexico. Mexico shares maritime borders with Cuba and Honduras. (Nations Online). Mexico is four times the size of Spain. Geographically Mexico belongs to Northern America and is the southern country of Northern America.



(Images from Country Reports.Org)

b. Infrastructure availability and readability

Mexico is fortunate to have a wide range of equipment availability and transportation infrastructure. Currently Mexico has a

25 priority national development initiatives, of which half involve transportation infrastructure development or other types of physical infrastructure construction. It includes a re-envisioned airport system for the greater Mexico City metropolitan area and surrounding states, development of a multi-modal cargo corridor across the Isthmus of Tehuantepec, a passenger and cargo “Maya Train” on the Yucatan Peninsula. (Privacy Shield)

Mexico has a large investment plan of 586 USD, a lone for infrastructure. Mexico is continuously being modernized. Mexico has also joined the USMCA, making it ideal for trade in the Americas. For distribution of products some of their highly dense cities are Mexico City, Iztapalapa, Ecatepec de Morelos, Guadalajara, Puebla, Juarez, Tijuana, Monterrey, Chihuahua, Aguas Calientes, Mexicali, Cancun, and many more. Mexico has accessibility and availability for airports and ports. Mexico’s port system is comprised of 24 integrated port

authorities. The Administración Portuaria Integral covers 40 cargo and passenger ports. The ports are in the Pacific, Atlantic, and Gulf Coasts. Mexico also has a freight railway system that is owned by the national government. The railway networks connect to major industrial centers and connections to the U.S. border. Mexico also has a U.S. Commercial Service Mexico that assists private sector with transportation infrastructure, and logistics. Mexico can offer a dependable and efficient supply chain.

c. Labor Availability

Mexico has a population of 128,727,688 as of May 4, 2020. (World-Of-Meters) The median age in Mexico is roughly 29.2 years old. Mexico has a population growth of 1.3% per year and is expected to maintain a steady increase. Mexico's government has also invested in their future population by investing more in higher education and technical industry training. Mexico has a 60.10 percent labor force participation rate pre Covid-19 in February 2020. The retirement age in Mexico is 65. Mexico is attempting at education reform but due to corruption in government Mexico has not made major gains in this sector. Only 62% of Mexican children reach high school and just 45% finish it. Due to the low availability of education people struggle with unemployment. "One in five 15 to 29-year old's is out of school and unemployed." (ICFDN) and 1 in 10 young men are not educated or employed. Yet despite those numbers more children are now attending school and being taught English too. One thing Mexicans do well is workmanship. Honda has reported that they believe Mexico is the best for foreign investment, qualified labor, and land to build on. Given the right training and

materials, Mexicans are passionate and have a great attitude towards working. The New York Times has reported that in Mexico Mexicans spend more hours of their day working than any other country.

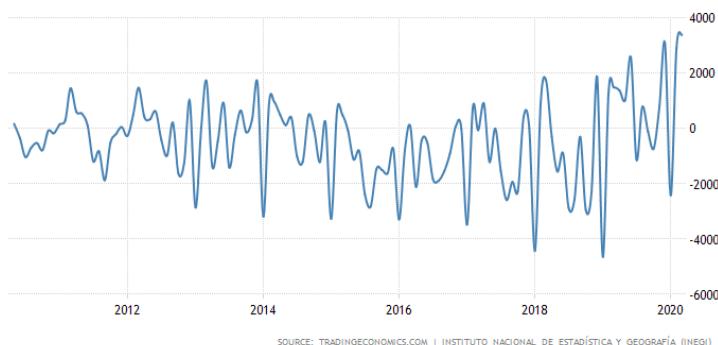
d. Economic Health

Mexico has the 11th largest economy in the world. (World Bank) The GDP growth rate of Mexico is roughly 2.04 %. This country has open trade and private investment opportunities. It has an abundance of natural resources. It has strong macroeconomic institutions. The country currently also has stable and sustainable monetary and fiscal policies. Mexico is the 15th largest exporter of goods. It is known for its ability to manufacture products that are integrated into regional and global value chains. (World Bank) Mexico also has a wage advantage of \$4.00 per hour compared to China's \$4.95 per hour. Mexico has an unemployment rate of 2.0 %. It has a 60.10% labor force participation. Mexico has a 91.70% productivity rate and a 96.43 employment rate. Mexico also has strong workforce availability and individuals that are trained in trade skills.

e. Exchange Rate

Mexico has utilized the peso, which is the most highly traded emerging market currency. (World Bank) It is important to note that the currency fluctuates and currently for every USD \$1 you get \$24.1466 MXN as reported on Bloomberg Report meaning the dollar is stronger in value than the peso. This could be due to Covid-19 wreaking havoc on many economies. So, you will get more for every US dollar. In 2019 the MXN peso was 19.6587 to the \$1 USD. During 2019 Mexico is having a high rise in criminal violence, border crisis, and more issues

with Donald Trump, the escalation of tariffs from the US. In 2018 the MXN peso was 19.1793 to the USD \$1. In 2017 the peso was 20.7272 to USD \$1. Meanwhile in 2017 Mexico faced key issues like Donald Trump, two earthquakes that killed 100+ individuals, even more corruption in government, even more violence with 20,878 murders, and economic downs with peso at a low. In 2016 the peso was 17.2626 to USD \$1. At this time Mexico faced issues with the purple tide, nationwide strikes over education reform, massacre in Oaxaca. Also, in 2016 Mexico faced protestors that demanded their president be removed from the office. President Nieto is the most unpopular president ever in polls, he created mass corruption, and economic stagnation. In 2015 the peso was 14.61 to USD \$1. This was the year of a lot of gun violence in the US from shootings in Lafayette, Waco Texas, Charleston South Carolina, Umpqua Community College, and Colorado Planned Parenthood. Also, in the US there is still a lot of controversy over police brutality trials. Major news in 2014 for Mexico was El Chapo escapes prison in Mexico, Mexico has widespread corruption in government and student massacre. Then in 2014 the MXN peso was at an all-time high at 12.66 to every US dollar. In that year the U.S. was dealing with Ebola, ISIS, midterm elections, and fatal use of police force in America.



f. Balance of Trade

Based on the graph charting the balance of trade between Mexico and the US above, we expect Mexico to continue along its gradual upward trend. Since 2014, the balance of trade has fluctuated, with Mexico experiencing both surpluses and deficits. As of late April 2020, Mexico reported its largest trade surplus in history (Mexico Balance of Trade, 2020). The balance of trade influences the exchange rate between countries when the net trade account is not zeroed out. This means that there is more demand or supply for a country's currency, influencing the price of that currency in the world market (Lioudus, 2019). Also, NAFTA's policies have served Mexico well from a manufacturing perspective but so-so for the country overall. Tecma reports that the automotive industry has promise but in general, those in the north have benefitted but those in the rural south have not. This affects the balance of trade because many of their exports can lose demand from cheap imports from the US (Ochoa, n.d.).

g. Country Risk and Stability

The United States and Mexico have an ongoing positive trade relationship. Both countries have been allied to the USMCA since 1994. This agreement between the two countries and Canada allows the free flow of goods across North America. Recently, Trump revised the agreement to reflect the rise in ecommerce. It now prohibits tariffs on digital products (Wiseman, 2020). Although the policy is generally favorable, it discourages companies from moving to Mexico. This slightly undermines the Mexican

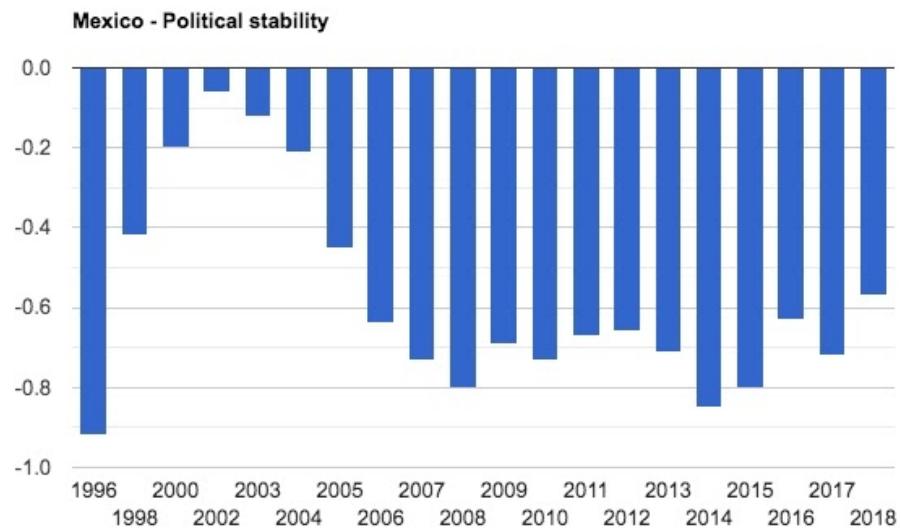
manufacturers in that they are missing opportunities that would see both wholesaler and retailer win.

Overall, entering Mexico for businesses does not present a considerable risk, but there are still some to be aware of. The country is stable, scoring a -.58 on a -2.5 to 2.5 on the political stability index (Mexico, political stability, n.d.). Despite this, there is some tension due to the social and political climate. For example, Mexican cartels have been a threat to civilians for several years. In April of this year, President Andrés Manuel López Obrador called them out, urging them to stop the violence instead of handing out pandemic care packages (Betz, 2020). Furthermore, the President has faced some scrutiny over his recent statements about coronavirus statistics in Mexico. He claimed the country flattened its curve, but data shows that it is rising over time (Agren, 2020).

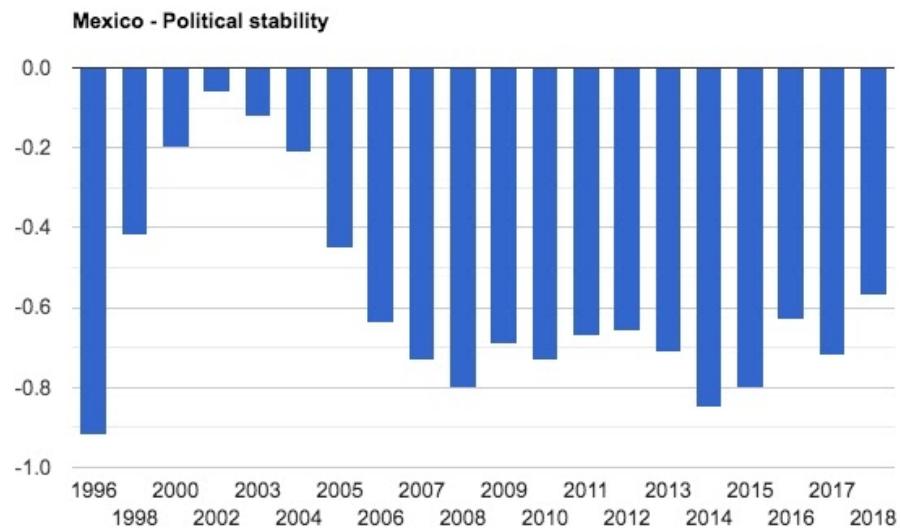
h. Business Travel Restrictions and Warnings

Fortunately, there would be few barriers to entering Mexico from the US. Legally and politically, there is not enough distance to negatively affect trade. Both countries have been supportive of one another during the covid-19 pandemic. Recently, the US sold 1,000 ventilators to Mexico with the option to buy more (Mexico receives, 2020). Physically, they are next-door neighbors, making transportation a lot faster. When individuals need to travel for business, they must fill our an FMN form for trips of less than 30 days (about 4 and a half weeks) or apply for a business visa for over 30 days (Business Visa, n.d.). Linguistically, there would be a minimal barrier. The English language is widely used in business across the world. In fact, most businesspeople in Mexico speak it. However, an interpreter would still be necessary to have a detailed conversation (Doing Business, n.d.). Moreover, an interpreter would be vital because

Mexican culture places emphasis on relationships; getting to know manufacturers is a key part of success.



Source: TheGlobalEconomy.com, The World Bank



Source: TheGlobalEconomy.com, The World Bank

D. Decision Stage 3: Whom to select as a vendor(s)?

There are several strategic steps to consider when selecting a vendor. It is important to carefully select a vendor as inventory is the highest investment factor for the apparel business.

Step 1 in selecting a vendor is getting organized in your search. Preparing for communication with vendors by creating a specific email address, google voice phone number and a spread sheet to track your communication so that everything is being filtered into one place is important to streamline your search.

Step 2 when searching for a vendor, research should be conducted to select vendors that have experience in manufacturing the type of product desired. Using key words that pertain to the product when searching the internet or supplier sites like Alibaba will show specific results.

Step 3 is evaluating the assortment available and checking garment specs to see if it aligns with the brand and company.

Step 4 is to find out what the minimum quantity for an order is prior to making a decision.

Step 5 is a crucial step which is evaluating whether the company has been verified by a third party. This ensures the quality to find a reputable company to partner with. For example, Alibaba has a gold supplier status program that indicates the vendor is a legally registered business. Vendors may invest in this seal of approval to gain more exposure to their business and expand their customer base. As stated by Anthony Bui-Tran in the YouTube video “How to Find A Supplier on Alibaba Like A Pro” the gold status on the vendor’s account can be purchased by the supplier for several thousand dollars (Seller Tradecraft, 2018).

Step 6 is reading reviews and the response rate indicating a high quality and professional supplier. Communication is key to partnering with vendors overseas and reviewing past customer’s

experience enables you to evaluate the performance of the company prior to making any financial commitments.

Step 7 is selecting the vendor by checking average processing and shipping terms and this includes if product is available to ship immediately. It is important to pick a vendor that is efficient in fulfilling your order accurately and on time.

Step 8 is evaluating labor and factory conditions with the company that will be a potential business partner with the brand.

Step 9 is evaluating the transparency of the company. It is important for the factory to be transparent about working conditions and have relevant contact information including accurate photos or videos of the production location. Carelessness and lack of responsibility in contracting work for the job can result in disasters such as the Rana Plaza collapse in Bangladesh as seen in the documentary “Made in Bangladesh” from The Fifth Estate. When focus is placed on obtaining the lowest cost for sourcing, this jeopardizes the health and even thousands of lives in this case of garment workers (“Made in Bangladesh”, 2014).

Step 10 is deciding the proximity of the vendor to the brand headquarters. Everything about a vendor may be excellent on paper but if the geographic location is extremely far away, there is a risk of complications in freight and delivery which could result in cancelled orders, damage, increased import tariffs or other issues.

We chose to partner with SPANDMEX which has been manufacturing swimwear in Mexico since 1996 and is the largest swimwear manufacturer in the country. They work with several well-known brands and offer high quality and fashionable designs in both standard sizing and plus sizing that will appeal to our target customers. They are also very professional in their correspondence, literature and website which also features a video tour of the state-of-the-art

factory and design center. They offer full package services consisting of: pattern making, sample making, fabric sourcing, cutting, sublimation, packaging, and delivery. They have several factories to contract with and their factory in Jalisco has 5 production lines with a maximum capacity of 30,000 units per month, which is promising for the volume of product Fenty will need to produce.

3. Conclusion

After much consideration and vendor research our international buying team for Savage x Fenty, will proceed to outsource the 2022 spring/summer swimwear line production in the country of Mexico.

Mexico, being our top choice, is closest in proximity to the U.S considering international transportation and delivery. The North American country offers a large scale of equipment availability as well as existing transportation infrastructure. Which increases attractiveness of country's reliable and effective supply chain.

We can benefit from Mexico's labor availability as its government has invested in higher education and technical industry training. This suits us as we require foreign investment consisting of skilled labor and available land permitting a substantial offering of natural resources. Furthermore, Mexico provides open trade policies as well as private investment opportunities with solid macroeconomic organizations.

Being the 15th largest exporter of goods, Mexico can manufacture regional and global value chains. Value chains give companies, such as Savage x Fenty, a competitive advantage, as supply chain leads to customer satisfaction.

Savage x Fenty is familiar in outsourcing manufacturing and importing goods. Our brand achieves to provide consumer with attractive low prices and quality merchandise. In doing so we must consider the best alternative, cost effective business. As we invest in outsourced manufacturing in

Mexico, labor availability and labor costs are imperative. As discussed, the country has a high productivity rate and ambitious workforce. Mexico has increasing potential for manufacturing opportunities as it will gain “12 billion to 19 billion dollars (about \$58 per person in the US) in Chinese manufacturing redirects” (Tempest Capital), per year and two-thirds of American companies manufacturing from China within two years making it a competitively attractive country for international outsourcing production. In addition, Mexican workers earn an average wage of \$4 USD per hour, in comparison to Chinese workers averaging at \$4.95 USD per hour; amplifying the cost-effective labor Mexico has to offer.

Some disadvantages considering the country of Mexico are, struggling unemployment due to low education availability, rising criminal violence as well as border crisis. Moreover, Mexican and United States relationship has its issues primarily with the Trump administration, resulting in the border crisis but more importantly the gradual increase of tariffs applied by U.S.

Proposal

Being that our brand is new, our international buying team for Savage x Fenty will partner with swimwear manufacturer, SPANDMEX. We will proceed to conduct business investing in a full package service. In doing so, we will commence production utilizing two SPANDMEX factories; production will expand within manufacturer in the future. The first factory is Teocaltiche, as it is the newest facility located north of the manufacturer's headquarters in Guadalajara. We chose Teocaltiche for its primary focus on swimwear, 12 lines of production, and capacity of 30,000 to 80,000 pieces per month. Our second factory of choice is Mechoacanejo next to the Teocaltiche factory. We specifically chose this factory as it is equipped for sublimation printing and bras-cup technology with top imported plotters, printing presses, and machinery

(SPANDMEX, 2020). Like Teocaltiche, the Mechoacanejo is a 3-year-old factory but smaller in size. Utilizing these SPANDMEX factories allows Savage x Fenty an opportunity to strengthen business relationship and work closely with manufacturer to produce quality and innovative design to launch its first swimwear collection.

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Appendix A

Correspondence of email communication sent to company: SPANDMEX

The screenshot shows an email interface. At the top, there's a red header bar with the SPANDMEX logo. Below it, the recipient's information is listed in four separate input fields: 'Raquel Mastrangelo', 'moxiefromroxie@gmail.com', '3107936867', and 'Moxie From Roxie'. To the right of these fields is a vertical red line. To the right of the line, there's a section titled 'Address' with the company's address: 'Grupo Fábricas Selectas', 'Bvd. Bosques de San Isidro #1116', 'Col. Valle de San Isidro', and 'Zapopan, Jalisco. CP. 45130'. Below this is another section titled 'Telephone' with the phone number '(33) 38364100 Ext: 185 & 650'. On the left side of the red line, there's a message box containing a request for catalogs or line sheets. At the bottom of the message box is a red 'Send' button.

Please let us know if you have any inquiries or want to personally receive the catalogues.

Raquel Mastrangelo
moxiefromroxie@gmail.com
3107936867
Moxie From Roxie

Hi There! I would like to request catalogs or line sheets with your swimwear merchandise available. I am interested in sourcing swimwear for a fashion brand I am working with. Thank you so much!
Best regards,

Send

Address
Grupo Fábricas Selectas
Bvd. Bosques de San Isidro #1116
Col. Valle de San Isidro
Zapopan, Jalisco. CP. 45130

Telephone
(33) 38364100 Ext: 185 & 650

Appendix B

Video/Audio Project Presentation Link

<https://youtu.be/rw8RCu1WVFw>